

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

**REPLY COMMENTS OF  
VALOR TELECOMMUNICATIONS ENTERPRISES, LLC  
CONCERNING THE FEDERAL-STATE JOINT BOARD ON UNIVERSAL  
SERVICE'S RECOMMENDATIONS FOR INTERIM HOLD-HARMLESS SUPPORT**

Valor Telecommunications Enterprises, LLC (VALOR), by its attorneys, hereby replies to certain comments filed on the Recommended Decision of the Federal-State Joint Board on Universal Service concerning hold-harmless universal service support.<sup>1</sup> VALOR is a newly formed holding company whose wholly-owned subsidiary operating companies have purchased various exchanges in Oklahoma, New Mexico and Texas from GTE Southwest Incorporated (GTE). The exchanges in Oklahoma and Texas currently receive hold-harmless support. The recommendations of the Joint Board, therefore, will have a direct effect on the operations of VALOR.

In the Recommended Decision, the Joint Board proposes: (a) that Long Term Support (LTS) be maintained under the current rules until the Commission considers appropriate reforms for LTS; (b) that the Commission phase down the balance of interim hold-harmless support, excluding LTS, through \$1.00 reductions in average monthly, per line support beginning January 1, 2001, and every year thereafter; and (c) recommends against phasing down interim hold-

<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, FCC 00J-1, released June 30, 2000 (Recommended Decision).

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harmless support that is transferred to a rural carrier when it acquires exchanges from a non-rural carrier. The Joint Board recommends that such transferred interim hold-harmless support should be maintained “until the Commission completes a review of the rule governing the transfer of universal service support or until rural high-cost reform is complete.”<sup>2</sup>

In these reply comments, VALOR supports the position of the Verizon telephone companies (Verizon) and Sprint Corporation (Sprint) that the Commission should not phase out hold-harmless support at this time. If, however, the Commission decides to phase out hold-harmless support for non-rural carriers, then, at a minimum, VALOR supports those commenters who argue that hold-harmless support should not be phased out for rural carriers that purchase exchanges from non-rural carriers.

**HOLD HARMLESS SUPPORT  
SHOULD NOT BE PHASED OUT AT THIS TIME**

In their comments, Verizon and Sprint argue that it is premature to phase out hold-harmless support at this time. As demonstrated by the companies, the Commission’s use of a proxy model to determine universal service high cost support for non-rural carriers will be reviewed by the Supreme Court and the high cost support mechanism for rural carriers has yet to be determined. Accordingly, there is great uncertainty concerning the amount of federal high cost support and, ultimately, the amount of high cost support that the states may have to contribute. Because of this uncertainty, and to ensure that high cost support is sufficient as required by the Act, VALOR agrees with Verizon and Sprint that the Commission should maintain hold-harmless support for non-rural carriers at this time.

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<sup>2</sup> See Recommended Decision at ¶3.

**HOLD-HARMLESS SUPPORT SHOULD BE MAINTAINED  
FOR EXCHANGES TRANSFERRED TO RURAL CARRIERS**

If, however, the Commission decides to phase out hold-harmless support for non-rural carriers then, at a minimum, hold-harmless support should be maintained for exchanges transferred to rural carriers. In its decision, the Joint Board recommends that interim hold-harmless support for exchanges transferred to rural carriers should not be phased down following transfer until the Commission: (1) reexamines the operation of Section 54.305 of its rules; or (2) reforms the high-cost mechanism for rural carriers. Under Section 54.305 of the Commission's current rules,<sup>3</sup> per-line support for a transferred exchange remains equal to the per-line amount of support that the seller was eligible to receive prior to the transfer. VALOR supports the Joint Board's recommendation on this issue.

This Recommended Decision is in keeping with the requirements of the Communications Act and the Commission's past actions in ensuring adequate universal service support for rural areas. In its Universal Service Order,<sup>4</sup> the Commission did not adopt a forward-looking mechanism for rural carriers in recognition that, compared to large incumbent local exchange carriers (ILECs), rural carriers serve fewer subscribers and more sparsely populated areas, and do not generally benefit from economies of scale and scope. The Commission also found that because universal service support is a large share of revenues of many rural carriers, any sudden change in the support mechanisms could disproportionately affect rural carriers' operations. In addition, the Commission stated that rural carriers would "shift gradually" to a forward-looking economic cost methodology to allow them ample time to adjust to any changes in the support

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<sup>3</sup> See 47 CFR § 54.305.

<sup>4</sup> *Federal-State Joint Board on Universal Service, Report and Order*, CC Docket No. 96-45, 12 FCC Rcd. 8776, 8936 (1997) (Universal Service Order).

calculation.<sup>5</sup> Moreover, the Commission further acknowledged that rural carriers need different treatment in the Price Cap CALLS Order, in which companies like VALOR, with very low teledensities, were afforded a slightly higher switched composite rate benchmark.<sup>6</sup>

A different treatment for rural carriers in the context of the phase-out of hold-harmless support is entirely appropriate for the same reasons. Continuation of the hold-harmless support in this circumstance also will help promote the universal service principle of ensuring that rural customers have access to telecommunications services that are reasonably comparable to those services provided in urban areas and that are available at reasonably comparable rates.<sup>7</sup>

This recommended action also would not frustrate any Commission goal. Although the Commission has expressed concern about the size of the high cost fund, maintaining hold-harmless support for rural carriers that acquire exchanges from non-rural carriers will not increase the size of the fund. In any event, hold-harmless support is an interim measure that will end when the Commission completes review of Section 54.305 or when rural high-cost reform is complete.

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<sup>5</sup> Id.

<sup>6</sup> See Access Charge Reform, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1 Report and Order in CC Docket No. 99-249 Eleventh Report and Order in CC Docket No. 96-45, FCC 00-193 (rel. May 31, 2000) (CALLS Order) at ¶177.

<sup>7</sup> 47 USC § 254(b)(3).

**HIGH COST SUPPORT  
SHOULD NOT BE LIMITED BY SECTION 54.305**

In the Recommended Decision, the Joint Board also expresses its concern with the operation of Section 54.305. Specifically, the Joint Board states that the rule has “negative consequences” with regard to transfers of exchanges between carriers that are not both receiving support based on the forward-looking mechanism because it “prevents the acquiring carrier from receiving an amount of support related to the costs of providing supported services in the transferred exchange.”<sup>8</sup> The rule also requires the carrier to keep separate books of account. VALOR agrees with the Joint Board that Section 54.305 should be reexamined because of the negative impact of preventing an acquiring carrier from receiving support based on its costs of providing supported services.

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<sup>8</sup> See Recommended Decision at ¶20.

### CONCLUSION

Based on the foregoing, VALOR urges the Commission to maintain hold-harmless support for non-rural carriers at this time. At a minimum, rural carriers who have purchased exchanges from non-rural carriers should receive the hold-harmless amount of universal service support upon acquisition of such exchanges. Furthermore, VALOR urges the Commission to reduce the harmful effective of limiting the high cost support for acquired exchanges by eliminating Section 54.305.

Respectfully submitted,

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Dated: August 28, 2000

## **CERTIFICATE OF SERVICE**

I, Althea B. Pierce, do hereby certify that on this 28th day of August, 2000, a copy of the foregoing reply comments was either hand-delivered or served by first class United States mail, postage prepaid, to the parties listed below:

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